

## ANNUAL REPORT OF THE AUDIT COMMITTEE TO COUNCIL, 2015-16

### 1 Introduction

1.1 The terms of the constitution of the Audit Committee state that "the Committee shall produce an annual report which it shall submit to the Council, accompanied by the internal auditor's annual report" (2.1). The HEFCW Audit Code of Practice indicates that the Report should incorporate any significant matters arising from the work of the internal auditor, and should record the work of the Committee including a review of:

- the external auditor's management letter;
- the internal auditor's annual report;
- value for money exercises and any WFCAS or other relevant report.

1.2 The Audit Committee is pleased to submit its twenty-fifth annual report to Council relating to Session 2015-16.

### 2 Membership and Term of Office

2.1	Mr Guy Clarke	310716 (Council member)
	Mr Raj Aggarwal	310716 (Council member)
	Mr Robert Preece	310716 (Council member)
	Mr Peter Gorin	310716
	Dr Ieuan Griffiths	310716
	Mr John Price	310716

Secretary: Mrs Sharon Orton.

### 3 Meetings

3.1 The Audit Committee met on four occasions during Session 2015-16 (15 October; 26 November; 21 April and 16 June). There was a Special meeting of the Committee held on 12 January 2016, under delegated authority from Council, to consider

- the final version of the 2014-15 Annual Accounts prepared under the requirements of the Statement of Recommended Practice (SORP) 2007–Accounting for Further and Higher Education; and
- the restated Consolidated 2014/15 Financial Information, prepared in accordance with the Statement of Recommended Practice - Accounting for Further and Higher Education 2015 and the Financial Reporting Standards (FRS 102).

3.2 Attendance at meetings was as detailed in the table below:

Mr Guy Clarke	All 5 meetings
Mr Raj Aggarwal	One meeting
Mr Peter Gorin	Two meetings
Dr Ieuan Griffiths	All 5 meeting
Mr Robert Preece	All 5 meetings
Mr John Price	All 5 meetings

3.3 The External Auditors for Cardiff University [Mark Ellis and Paul Bowden of PricewaterhouseCoopers] attended the meeting on 26 November 2015 for consideration of the 2014-15 Annual Accounts. The Vice-Chancellor attended this meeting.

3.4 Ian Davies of PricewaterhouseCoopers attended the June 2016 meeting of the Audit Committee to present and discuss the External Audit Plan for the 2015-16 accounts.

#### **4 Terms of Reference**

During the period, the Audit Committee operated under the Ordinance which came into effect on 1 August 2004.

#### **5 Internal Audit Agreement and Provision**

5.1 The University's internal audit service is provided by the Joint Internal Audit Unit (AUDIT). This service is shared with Swansea University and is governed by a common Agreement approved by both institutions on a three-year rolling basis with effect from 1 August 2004, to be reviewed annually by each institution.

5.2 The Joint Management Group consists of the two Chairs of the institutions' Audit Committees and the two Directors of Finance. The Secretary of the Audit Committee at Cardiff University is Secretary to the Group. The Director of Strategic Planning and Governance at Cardiff University also attended meetings.

5.3 The Management Group met four times in Session 2015-16 to discuss the progress and future of the Joint Internal Audit Unit. Both institutions commissioned external reviews of internal audit provision. The Cardiff review found that the structure and staffing levels of the Unit was not fit for purpose to provide a challenge to senior management at a strategic level. However, both the Audit Committee and Cardiff University management were agreed that, for the present, internal audit should be provided internally (with some external input) and not outsourced.

5.4 It was agreed by the Audit Committees and Councils of both institutions that the Internal Audit Agreement should be ended with effect from 31 July 2016. Discussions were held on transition arrangements to facilitate the winding up of the Agreement, with the aim that alternative internal audit services would be in place in each institution for January 2017. The current internal audit team will continue to provide audit services during the transition period.

#### **6 Audit Needs Assessment and Audit Programme**

6.1 The Internal Audit Strategy and Audit Programme of Work for the 2015-16 Session was considered by the Audit Committee on 26 November 2015 and endorsed by Council in December. The programme of work was kept under review throughout the period.

6.2 The internal audit strategy used the following methodology:

- the core objectives of Cardiff University and, where available, the specific key risks associated with the achievement of those objectives are identified. The University's Risk Register identifies the main risks to the University by area of activity;
- the auditable areas that impact significantly on the achievement of the control objectives are determined. The auditable areas are assigned a

simplistic priority to reflect previous audit coverage and the associated level of assurance provided, and the likely impact on the University of non-compliance of internal control.

- 6.3 Assessment of the degree of risk for each auditable area is calculated by considering the following factors: materiality, business impact, audit experience, risk and potential for fraud.
- 6.4 Based on this audit needs assessment, an annual internal audit plan is constructed that will enable the Joint Internal Audit Unit to give an assurance as to the adequacy and effectiveness of the University's risk management, control and governance processes.

## 7 **Joint Internal Audit Unit: Annual Report**

- 7.1 The Annual Report of the Joint Internal Audit Unit for 2015-16 will be considered by the Audit Committee at its meeting on 10 November 2016. Based on the areas audited in the Session, AUDIT will be able to provide an Annual Assurance Opinion of **substantial assurance** to Audit Committee and to Council on the adequacy and effectiveness of the University's overall framework relating to the management of risk, internal control and governance processes. The Report will be submitted to Council for approval on 28 November 2016.
- 7.2 The Audit Committee is pleased to report that the 2015-16 programme was 98% completed to draft stage by the end of the session. One review (2%) was deferred to the 2016-17 audit programme. The subject activity of the review had been externally peer reviewed during the Session and the deferment would enable the Unit to examine progress made against the recommendations in the external report.
- 7.3 The Unit delivered the budgeted 439 audit days. In addition, the Unit undertook audits of payment claims relating to INTERREG III, FP6 and FP7 European Commission funded projects and interregional initiatives, amounting to 90 days.

## 8 **Joint Internal Audit: Staffing**

- 8.1 In November 2014 the Head of the Unit started an 18 month secondment outside of the University. For the remainder of that Session the Unit was jointly led by the two Senior Auditors. However, for Session 2015-16, one of the Senior Auditors, Mrs Pauline Pearce, was appointed Acting Head of the Unit.
- 8.2 University management approved additional temporary audit resource during the Session to enable the programme to be fully delivered. Assignments which were considered to be specialist areas of assurance were either completed by the appointed provider for general audit services (Mazars LLP) or by the appointed provider for IT audit services (BDO LLP).

## 9 Joint Internal Audit Unit Reports

- 9.1 In October 2015 [Minute 455.2], Audit Committee approved the use of the following audit report ratings:

	Level	System Adequacy / Control Application Adequacy
<b>A</b>	<b>Substantial Assurance</b>	A sound system of internal control likely to achieve the system objectives. Only minor issues of compliance in control operation were noted.  <i>Few recommendations made, the majority of which will fall into the "Low / Merits Attention" category.</i>
<b>B</b>	<b>Adequate Assurance</b>	A generally sound system of internal control, but where there are some weaknesses that may put achievement of some system objectives at risk.  Some significant issues of compliance, efficiency or specific gaps in internal controls operation were noted which need to be addressed to achieve the system objectives.  <i>The majority of recommendations are likely to fall into the "Medium / Significant" category.</i>
<b>C</b>	<b>Limited Assurance</b>	A system of internal control that is generally and inherently weak, containing a number of significant design/control weaknesses which put the majority of system objectives at risk.  Numerous and/or serious weaknesses in the internal control framework noted.  <i>A significant number of recommendations are likely to have been made, the majority of which fall into the "High / Fundamental" category.</i>

- 9.2 Between November 2015 and July 2016, the Audit Committee received and considered a total of 18 reports and 1 follow up report. A further 20 audit reports, two follow up reports and an advisory report were presented at the October 2016 meeting. Fifteen of the reports received were audits deferred from the 2014-15 audit programme.

- 9.3 The assurance rating of the audit reports received from November 2015 to October 2016 were as follows:

Substantial Assurance	10
Adequate Assurance	12
Limited Assurance	15
No assurance	0

- 9.4 Audit reports rated 'C' are subject to a formal Follow Up Review. Where a report has a dual rating, high category recommendations will be included in the procedure for reviewing all recommendations.

## 10 Management Responses

- 10.1 In general terms the main audit recommendations have received a positive response from management, with all except one recommendations being agreed to be implemented by management. The Audit Committee has considered and accepted the management reasons for not accepting the remaining recommendation.
- 10.2 A total of 73 high category recommendations were raised in internal audit reports during 2015-16. While this is a significantly higher number of such ratings than in previous periods, as an average per audit the number of high category recommendations is lower. This is due to the doubling of internal audit reports delivered in the period.
- 10.3 An action plan has been agreed with management to address the high category recommendations and progress in addressing the control failings were reported to the Audit Committee in a report containing management responses.
- 10.4 The Audit Committee regards the monitoring of action taken on agreed audit recommendations as a particularly important part of its work and, consequently, considers a range of follow-up reports on the action taken by management in response to recommendations made by the Joint Internal Audit Unit.

## 11 Other Matters

- 11.1 In April 2016 Audit Committee received and considered the HEFCW Memorandum of Assurance and Accountability which included a revised Audit Code of Practice. As a result work was carried out on the terms of reference of the Committee to ensure that they remained fit for purpose and met the requirements of the Code. A suggested redraft of the terms of reference is to be considered by Council at its meeting on 28 November.

## 12 External Audit

### 12.1 2015-16 Annual Accounts and Audit Findings presentation

- .1 There were no deviations from the original audit strategy which concentrated effort on significant matters and areas of judgement identified at the planning stage of the audit. Mark Ellis and Ian Davies of PricewaterhouseCoopers attended the meeting on 10 November 2016 for discussion of the draft accounts and External Auditor's Audit Findings presentation;
- .2 The External Auditor placed an appropriate level of reliance on the work of the Joint Internal Audit Unit which was supplemented by its own compliance work when required;
- .3 The Audit Findings presentation did not include any significant matters to be brought to the attention of the Audit Committee;
- .4 The Audit Findings presentation confirms that the External Auditor will be giving unqualified audit opinions on the consolidated financial statements of the University and its subsidiary companies for the year ended 31 July 2016.

### 12.2 Materiality

- .1 The Financial statements for 2015-16 have been prepared in accordance with the Statement of Recommended Practice -

Accounting for Further and Higher Education 2015 and the Financial Reporting Standards (FRS 102). The level of materiality adopted (1%) reflects the University's current status as a "public interest entity";

- .2 One uncorrected misstatement was reported by the External Auditors regarding the timing of recognition of historic surpluses of the Medicentre. However, this is not a material item.

### 13 **Audit Committee Opinions**

#### 13.1 Performance of the External Auditors

A tender to provide external audit services to the University was held in Session 2015-16. Two firms were invited to interview. A recommendation was made to Council, and approved in May 2016, that PricewaterhouseCoopers be awarded the contract for five financial years ending with the financial year 31 July 2020.

On the basis of a confirmation by the Director of Finance, the Audit Committee is satisfied that the external auditor has fulfilled the requirements of the contract for 2015-16.

#### 13.2 Non-audit Work carried out by the External Auditors

On the basis of an assurance by the Director of Finance, the Audit Committee is satisfied that the non-audit work carried out by the external auditors during 2015-16 did not impinge on their audit work due to its specialised nature.

The Audit Committee has agreed [October 2002] that payments to the University's external auditors for non-audit work must not exceed 100% of the statutory audit fee without the authorisation of Chair of the Audit Committee.

In 2015-16 authorisation was given for the External auditors to perform due diligence work in relation to the public bond and this is disclosed in note 10 of the Financial Statements.

#### 13.3 Assurance to Council

During Session 2015-16, the Audit Committee has received reports from the Joint Internal Audit Unit and from the external auditors. In the light of these reports, and an assessment by the Director of Finance, the Audit Committee is satisfied:

- .1 that the major control systems in place are such that the Accounting Officer can place reliance on them;
- .2 that progress has been made in developing the University's risk management framework and further enhancements to systems and processes to embed risk management across the institution were planned for Session 2016-17;
- .3 that the Council has discharged its responsibility for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the University and its subsidiaries and enable it to ensure that the financial statements are prepared in accordance with the University's Charter of Incorporation, the Statement of Recommended Practice: Accounting in Higher Education Institutions and other relevant accounting standards. It is satisfied that reasonable steps have been taken to:

- i) ensure that funds from HEFCW are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council has from time to time prescribed;
  - ii) ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
  - iii) secure the economical, efficient and effective management of the resources and the expenditure of the University and its subsidiaries.
- .4 that the Council may rely on the institution's risk management, internal control and governance processes and has recommended to Council that the Corporate Governance Statement, the Public Benefit Statement and Statement of Responsibilities of the Council of Cardiff University contained in the University's Annual Accounts be approved.

#### 14 **Charitable Status**

Under the Charities Act 2006, Cardiff University, along with all HEIs in Wales, lost its exempt charitable status and was required to register with, and be regulated by, the Charity Commission. The University duly registered with the Charity Commission in June 2010 in compliance with the Charities Act 2006. Its registered charity number is 1136855.

Audit Committee  
10 November 2016